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August 5, 2013

By Electronic Submission
Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F. Street, NE
Washington, DC 20549
rule-comments@sec.gov

Re: *Notice of Filing of Amendment No. 2 and Order Instituting Proceedings To Determine Whether To Approve or Disapprove a Proposed Rule Change, as Previously Modified by Amendment No. 1, To Institute Supplemental Liquidity Deposits To Its Clearing Fund Designed To Increase Liquidity Resources To Meet Its Liquidity Needs; File No. SR-NSCC-2013-802*

Citadel LLC[1] appreciates the opportunity to provide additional comments on the recently amended National Securities Clearing Corporation ("NSCC") Supplemental Liquidity Deposit proposal (the "SLD Proposal" or "Proposal").[2] Citadel previously filed two comment letters and also met with representatives of the Commission and the Federal Reserve Board of Governors to discuss our views on prior versions of the Proposal.[3]

We are submitting this supplemental comment letter to further address the SLD Proposal as it was recently amended by NSCC's Amendment No. 2[4] and to address the comment letter

1 Established in 1990, Citadel is a leading global financial institution that provides asset management and capital markets services. With over 1,100 employees globally, Citadel serves a diversified client base through its offices in the world's major financial centers, including Chicago, New York, London, Hong Kong, San Francisco and Boston. Citadel Securities operates an industry leading market making franchise and an institutional markets platform. On an average day, Citadel accounts for over 14 percent of U.S. listed equity volume and over 19 percent of U.S. listed equity option volume.

2 Exchange Act Release Nos. 34-69313 (April 4, 2013), 78 FR 21487 (April 10, 2013); 34-69451 (April 25, 2013), 78 FR 25496 (May 1, 2013). Unless otherwise specified, capitalized terms in this letter have the same meaning as in the SLD Proposal.

3 Citadel filed an initial comment letter on the SLD Proposal on April 18, 2013 citing our preliminary concerns and requesting that the SEC extend the comment period. On June 13, 2013, Citadel submitted a letter commenting on the SLD Proposal as amended by NSCC's amendment No. 1.

4 Exchange Act Release No. 34-69951 (July 9, 2012), 78 FR 42140 (July 15, 2013) ("NSCC Amendment No. 2 and SEC Order Instituting Proceedings").

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from The Depository Trust & Clearing Corporation ("DTCC") that accompanied those amendments.[5] Despite the recent amendments, the SLD Proposal remains fundamentally flawed because it imposes very substantial liquidity requirements on members based on opaque metrics that members cannot predict or control. As a result of this flaw, and because of the other deficiencies described below and in our prior comment letters, NSCC should withdraw the Proposal and work with members to develop a better liquidity framework. If NSCC fails to withdraw the Proposal, the Commission should disapprove it.

I. NSCC'S RECENT AMENDMENTS DO NOT ADDRESS FUNDAMENTAL FLAWS

We appreciate NSCC's recent amendments in response to commenters and hope that they reflect a willingness by NSCC to continue to work with industry participants on a responsible redesign of liquidity enhancements for NSCC before NSCC implements any final rule changes.[6] Despite our view that the amendments reflect improvements, they unfortunately are improvements to a proposed framework that is fundamentally flawed. At its root, the revised SLD Proposal continues to impose a "black box" approach to raising supplemental liquidity. We agree with SIFMA that the SLD Proposal thus fails to meet the requirements of the Securities Exchange Act ("Exchange Act")[7] and the Payment, Clearing, and Settlement Supervision Act ("Clearing Supervision Act").[8]

Under the Proposal, clearing members would have little or no control over and ability to predict the risks and costs of their NSCC participation, contrary to goals of Section 17A of the Exchange Act,[9] the Clearing Supervision Act,[10] and the requirements applicable to clearing

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5 DTCC comment letter dated June 10, 2013 ("DTCC Letter").

6 In summary, NSCC's amendment No. 2 revises the SLD Proposal to (1) permit clearing members without bank affiliates to designate a commercial lender to participate in the Credit Facility subject to "reasonable lender criteria" to be determined by NSCC; (2) allow excess Credit Facility commitments to be allocated ratably among Regular Activity Liquidity Providers to reduce deposit requirements; (3) extend the Options Expiration Activity Period to cover monthly options expiration periods; (4) include a new definition of "Other Qualifying Liquid Resources" to allow NSCC to consider additional liquidity mechanisms in the future; (5) increase NSCC's discretion over whether to include prefunded deposits in its liquidity resources; (6) provide clearing members with additional SLD related reporting information at least monthly; (7) provide that the first SLD contributions would be due in September 2013; and (8) make other technical changes and clarifications to align notice, payment, and cash return timeframes.

7 15 U.S.C. 78a et. seq.

8 SIFMA comment letter dated June 24, 2013 ("SIFMA Letter") at sections II-IV.

9 15 U.S.C. 78q-1.

10 12 USC 5461 et. seq.

agencies thereunder.[11] *For the reasons detailed below, we believe that the responsible step for NSCC as a systemically important financial market utility is to withdraw the SLD Proposal and continue to engage in a cooperative and detailed industry dialogue to generate a liquidity solution that gives clearing members appropriate levels of control over and ability to predict liquidity obligations, while providing NSCC with an enhanced liquidity platform.*

The pledge by NSCC in its recent comment letter that it is committed to further assessing existing concerns and problems with the Proposal over time is cold comfort to clearing members who would immediately be forced to manage this supplemental liquidity obligation.[12] Rather than non-specific aspirations to address existing concerns *after* the new requirements are in effect, NSCC should address those concerns *before* adopting a radically redesigned liquidity framework.

And even more fundamentally, NSCC still has not clearly explained or defined the size and nature of the additional liquidity need that NSCC is trying to address in the first place. We preliminarily understand from NSCC that as of March 2013, NSCC concluded that the size of NSCC's total liquidity need was approximately $14 billion. We also understand that the existing Credit Facility is currently sized to provide roughly $14 billion in liquidity to NSCC. We do not know how NSCC decided that $14 billion was the right number, and NSCC has not publicly explained basic questions about its liquidity framework. For example, what are all the liquidity resources currently available to NSCC? What qualitative and quantitative standards does NSCC use to determine its total liquidity needs? How were those standards determined and how do they ensure that NSCC will have an appropriate amount of available liquidity? What are the expected liquidity needs if a large clearing member family fails?

Without first clearly explaining and defining the problem it is trying to solve, NSCC continues to push the SLD Proposal forward with a mechanism for sizing liquidity obligations that clearing members can neither control nor discern (i.e., the size of the largest member family's peak 4 day long exposure). In light of NSCC's intent to swiftly implement the Proposal, we believe it is very important for regulators and market participants to keep in mind that what is at issue here is *supplemental liquidity* for NSCC. The SLD Proposal is not in any way an entire reworking of NSCC's clearing fund and the risk mutualization structure supporting the national system for clearance and settlement that has worked without fail since NSCC's establishment in 1976. So while the Proposal requires very significant and additional liquidity commitments from affected clearing members (we understand this to be roughly $14 billion spread across the 30 affected clearing members and member families) and clearing members would be required to manage this burden, NSCC's existing clearing fund and loss allocation

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11 17 CFR 240.17Ad-22.

12 DTCC Letter section IV. (including a planned study by NSCC of refinancing risk associated with reliance on the Credit Facility and a report to DTCC's Board of Directors by May of 2014).

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process remains firmly in place to resolve any clearing member default that might occur, although such an event has never happened.

We emphasize that Citadel supports NSCC's general goal of improving its liquidity framework. Given the absence of exigent circumstances, however, NSCC should take the time necessary to develop and prepare to implement a better designed framework, rather than pressing ahead with a flawed approach to get something across the finish line now. More time, rethinking and retooling is needed to get the approach to supplemental liquidity correct and to eliminate unwelcome and significant risks that the current Proposal would bring to the securities markets.

II. THE SLD PROPOSAL SHOULD IDENTIFY THE NSCC LIQUIDITY PROBLEM FIRST AND THEN DEVELOP A SOLUTION TO SAFELY ENHANCE NSCC's ACCESS TO LIQUIDITY

NSCC's recent decision to amend the SLD Proposal rather than withdraw the filing and redevelop a better approach with industry partners is disappointing. This gives the impression that NSCC is rushing to implement material changes to how clearing members contribute to the liquidity structure even though NSCC acknowledges in its recent amendments that concerns about the Proposal still exist. In its recent amendments, NSCC says that it plans to solve for some of these concerns by continuing to explore additional financing sources *after* the existing SLD Proposal is put in place.[13] *Without an emergency justification for rushing to final action, the goal of NSCC, its participants and regulators should be to see that the best clearing fund enhancements possible are designed* ***before*** *they are finalized as material changes to NSCC's risk management framework and are then borne by clearing members and market participants as binding rules.*

We agree with SIFMA that NSCC has failed in the SLD Proposal (including through its amendments) to articulate an emergency justification for the SLD Proposal.[14] Moreover, the DTCC Letter and NSCC's amendments confuse whether NSCC believes that the SLD Proposal is required as a regulatory response to the SEC or whether the SLD Proposal is instead NSCC's independent effort to enhance its risk management platform as a central counterparty.[15] Our

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13 NSCC Amendment No. 2 and SEC Order Instituting Proceedings at 42143.

14 SIFMA Letter section I.

15 DTCC Letter at 7. DTCC states that Prinicple 7 from the Principles for Financial Market Infrastructures ("PFMIs") and its key considerations "inform the *interpretation and application* [emphasis added] of the SEC's Financial Resources Rule (Rule 17Ad(b)(3)[sic])." This is not accurate. We appreciate that NSCC may wish to draw from international standards to improve its own practices. However, the impetus for the SLD Proposal should be made very clear. Rule 17Ad-22(b)(3) does not require this Proposal because of the PFMIs. The requirements of Rule 17Ad-22(b)(3) are independently interpreted and administred by the SEC and the SEC has not published guidance incorporating or borrowing from the PFMIs. In fact, the SEC in adopting Rule 17Ad-22 specifically rejected that approach when it responded to commenters and

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understanding is that the SLD Proposal is *not* an emergency regulatory response to meet SEC requirements under the Exchange Act, such as the financial resources requirements in Rule 17Ad-22(b)(3). Based on discussions with regulators, we understand that instead the Proposal is part of NSCC's independent and ongoing efforts to improve its practices.

With this in mind, Citadel fully supports NSCC's goal of improving its liquidity framework over time. We agree with SIFMA, however, that because the SLD Proposal remains fundamentally flawed despite NSCC's recent amendments, NSCC should withdraw the Proposal in favor of developing a more appropriate set of liquidity enhancements.[16] The fact that developing a better designed liquidity solution will require more time and effort (e.g., the potential for further considerations and action by the DTCC Board) is not a reason to rush ahead now with extremely large liquidity requirements that are far beyond the control of clearing members.

III. FUNDAMENTAL REVISIONS ARE STILL NEEDED TO ENSURE THAT CLEARING MEMBERS HAVE CONTROL OVER THEIR RISKS AND COSTS

Whenever possible, any new, material liquidity requirement for clearing members should be sized based on metrics that clearing members can control through adjustments in their own behavior. If metrics must be used that are beyond clearing member control, they should be metrics that clearing members can readily measure and predict. The revised framework of the SLD Proposal still fails to meet these basic standards and would leave clearing members flying blind with insufficient information to identify and evaluate the risks and costs associated with their use of NSCC's services.

A. The Peak Liquidity Needs Are Still Beyond Clearing Member Control

The amendments filed by NSCC do nothing to address the fact that SLD contributions at their base are sized using the Regular and Special Activity Peak Liquidity Needs of a single clearing member or clearing member family. This means that the absolute size of NSCC's liquidity need is still beyond the control of all other clearing members that are assessed an SLD contribution and the potential size of their contribution is unbounded—clearing members that do not set the peak liquidity benchmark have no control over whether their SLD contribution at any given time may double, triple, or increase by any other amount. Even DTCC in its recent comment letter pointed out that "[m]ember liquidity needs do not readily conform to a normal distribution" and NSCC therefore is not able to reliably "dimension the size of its liquidity needs

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acknowledged that instead Rule 17Ad-22 was generally meant to codify existing clearing agency practices reflective of the CPSS-IOSCO Recommendations for Settlement Systems of 2001 and Recommendations for Central Counterparties of 2004. To clarify the statutory basis of the regulation, we also note that Rule 17Ad-22 was promulgated under the Commission's rulemaking authority in Section 17A(d) of the Exchange Act—not through section 763 of the Dodd-Frank Act or section 805 of the Clearing Supervision Act as the DTCC Letter states.

16 SIFMA Letter at 4.

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by using a statistical distribution."[17] We fail to see how clearing members, who enjoy nowhere near the level of market transparency of NSCC as a central counterparty, should reasonably be expected to manage to such an unpredictable metric when NSCC itself cannot.

We continue to believe that a more appropriate way to satisfy NSCC's liquidity need would be to provide clearing members with risk-based metrics that put them in control of how much supplemental liquidity they must provide. For example, we believe that NSCC could implement a tiered structure, as we recommended in our prior comment letter. In such a structure, each clearing member would be responsible for an SLD contribution based solely on the actual liquidity exposures that it presents to NSCC or NSCC could simply cap each clearing member's potential SLD contribution. Any remaining liquidity shortfall at NSCC could then be allocated to the clearing member family or top "tier" of families who are responsible for generating the largest liquidity exposures.

To help discourage activity that creates excessive exposure, and protect NSCC from becoming too exposed to a single clearing family, incremental cash margin calls could be used by NSCC. This would supply a similar risk management result to the prefund deposit mechanism that is already contemplated in the SLD Proposal.

In addition, NSCC should size its liquidity need based on the period for which NSCC actually guarantees trade obligations. Currently, this period is two days rather than four days because NSCC's trade guaranty does not apply to trades that are submitted until midnight of T+1. The Proposal does not provide any explanation for the fundamental decision to propose measuring NSCC's liquidity obligation over four days. Since NSCC does not guarantee four days of settlement activity, why then does the SLD Proposal assume that NSCC must pay for four days of activity in a default scenario? If a clearing member fails, NSCC would meet all of its obligations under its rules by performing on just two days worth of guaranteed trading activity. Therefore, before NSCC forces members to pay for liquidity needs measured over a four day time horizon, NSCC should formally guarantee those full four days of activity. Furthermore, any supplemental liquidity mechanism in NSCC's rules should be drafted so that it would automatically realign with the timing of NSCC's trade guarantee and the length of the securities settlement cycle in the event that either or both of those time frames are adjusted in the future.

B. Reporting Frequency and the Level of Detail Remains Substantially Inadequate

NSCC's recent amendments revise the SLD Proposal such that NSCC would commit to providing all clearing members with information, at least monthly, about (1) the liquidity exposures that a particular clearing member presented to NSCC during the past month; (2) NSCC's peak liquidity exposure during the past month; and (3) the percentage on each business day during the past month that the clearing member's peak liquidity exposure on that day represents in relationship to the aggregate exposure caused by all clearing members.

[17] DTCC Letter at 7 – 8.

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As a central counterparty that has full view of all of the exposures that are caused by its clearing members, NSCC is optimally positioned to provide data concerning the operation of its own risk management regime. However, the frequency and level of detail of reporting proposed by NSCC would be wholly inadequate to allow clearing members to understand how their activities position them within the group of 30 clearing members that are required to make SLD contributions. Assuming that the basic structure of the SLD Proposal were to move forward, *which is not a structure we support*, we believe that NSCC should be required to provide clearing members with daily information on an anonymous basis that reflects NSCC's liquidity needs with respect to the 30 clearing members required to make SLD contributions, as well as the next 10 clearing members. The scope of the information provided on a daily basis should be designed to include all of the data inputs that are necessary under proposed NSCC Rule 4A for a clearing member to perform a daily computation of its share of the peak liquidity obligation and to track its position within the group of 40 clearing members. Most importantly, this would include all data elements in proposed Sections 4 and 5 of proposed Rule 4(A). Clearing members need to have sufficient data to be able to estimate liquidity requirement fluctuations over time and should receive data as soon as possible to the extent that it may reflect an imminent increase in a clearing member's liquidity obligations.

Moreover, key definitions in the SLD Proposal are lacking sufficient specificity to enable clearing members to replicate NSCC calculations and to enable the Commission and the public to adequately assess the Proposal. For example, the Proposal provides:

> "Regular Activity Peak Liquidity Exposure" means, (i) with respect to an Unaffiliated Member, the largest liquidity need that the Corporation would have in the event of the default of such Unaffiliated Member on any Regular Activity Business Day, (ii) with respect to a Member of an Affiliated Family, the largest liquidity need that the Corporation would have in the event of the default of such Member on any Regular Activity Business Day, and, (iii) with respect to an Affiliated Family, the largest liquidity need the Corporation would have in the event of the simultaneous default of all of the Members of that Affiliated Family on any Regular Activity Business Day, *in each case as calculated and determined by the Corporation.*[18]

We now understand, pursuant to subsequent communications with NSCC, that when calculating this metric, NSCC adds the net settlement exposure on day T, looks at net purchase obligations on T+1 through T+3, and subtracts natural offsets (*e.g.*, a long position in stock A on T +1 could be netted against a short position in stock A on T+2).

While NSCC should be applauded for its willingness to explain to a member how the proposed rule would operate, basic and fundamental calculations should be clearly explained in the SLD Proposal and the proposed rule text. If the basic structure of the SLD Proposal were to move forward, the Commission should require NSCC to amend the Proposal to clarify the

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18 Proposed NSCC Rule 4(A), section 2 (emphasis added).

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proposed rules and provide simple mathematical examples to demonstrate each calculation—particularly for any sections of the rule provisions that include phrases like "as calculated and determined by the Corporation."

C. The Size and Operation of the Credit Facility are Unpredictable

We support NSCC's amendment with respect to access to the Credit Facility to allow members to obtain a Credit Facility from an unaffiliated lender. Like SIFMA, however, we remain concerned that any lender designated by a clearing member would be subject to satisfaction of NSCC's "reasonable lender criteria."[19] While NSCC indicates that these "reasonable lender criteria" will be designed to cover matters including credit risk, concentration risk and lender diversity, NSCC has not specified in the SLD Proposal any of the actual criteria or how they would operate. Without that information, the SLD proposal remains unclear concerning the extent to which the "reasonable lender criteria" may limit the ability of clearing members that are not affiliated with a bank to participate in the Credit Facility by designating a lender. It should therefore be finalized and shared with clearing members in detail as part of the Proposal.

NSCC plans that the renewal of the Credit Facility would continue to take place on an annual basis. As noted in our prior letter, a source of liquidity with a longer term would be more stable and help reduce refinancing risk. The annual renewal practice would not provide clearing members with a controllable or reliable way to predict their liquidity obligations to NSCC because if the renewal of the Credit Facility goes poorly, then there would be a sudden and drastic increase in their Regular Activity Supplemental Deposit. NSCC acknowledges this refinancing risk for clearing members in its amendments and says that it will undertake a substantial review and evaluation of available financing options and the related costs so that it can present findings to the DTCC Board prior to the next scheduled renewal of the Credit Facility in May 2014.[20] We agree that this type of research and development by NSCC is critical

19 SIFMA Letter at 7.

20 The items to be included in NSCC's planned review are significant, including: (1) analysis of the availability, size, cost, and credit risk necessary to obtain the additional commitments under the Credit Facility likely to reduce the Regular Activity Supplemental Deposit requirements to zero; (2) analysis of the availability, size, cost, and credit risk to obtain a new multi-year committed facility to replace the existing Credit Facility; (3) an understanding of the aggregate costs (if any) for clearing members to designate commercial lenders to commit to the Credit Facility as their designees; (4) analysis of the availability, size, cost, and potential depth of a capital markets funding among clearing members and/or third parties as an additional liquidity resource, including the viability of offering the funding to clearing members or mandating their participation in such funding; and (5) a summary of the steps that clearing members have taken to reduce their NSCC liquidity profile, and whether this should be factored into the historical analysis used to determine NSCC's Regular Activity Period liquidity needs and clearing members share of that need.

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in the development of a responsible liquidity solution that will minimize refinancing risk for clearing members. We also believe however, that these are exactly the kinds of careful planning steps that ought to be taken *before* NSCC finalizes a liquidity solution—not after the SLD Proposal is put in place.

It also remains unclear from sections 5 and 9 of proposed Rule 4(A) how exactly any "excess" Credit Facility commitments made by clearing members or their designated lenders would be allocated across clearing members that are Regular Activity Liquidity Providers. Both the (1) DTCC Letter[21] and the (2) NSCC Amendment No. 2 and SEC Order Instituting Proceedings provide that this excess "would be allocated ratably among *all* Regular Activity Liquidity Providers to reduce their cash deposit requirements." The emphasis on "all" could be read to indicate that the excess may be allocated even to clearing members that already meet their contribution requirement through the Credit Facility. This would be a strange result because clearing members that stand to benefit from the excess allocation would be deprived of some potentially significant portion due to the excess also being allocated to clearing members that do not need it because they already meet their SLD contribution obligation. Such an approach would systematically cause NSCC to collect more liquidity from clearing members than its specified need.

We do not believe that sections 5 and 9 of proposed NSCC Rule 4(A) clarify with certainty whether this is the intended operation of the excess allocation. These sections have been amended to provide that the formula for determining Regular Activity Liquidity Obligations includes "an additional amount to provide *each* [emphasis added] Regular Activity Liquidity Provider with the benefit of a full allocation of the [excess] amount in clause (ii) above." Here too, the use of the word "each" could be read to indicate that the excess would be allocated across *all* Regular Activity Liquidity Providers. NSCC should clarify the intended operation of the excess allocation mechanism by providing a numerical example, and NSCC should provide numerical examples more generally to explain exactly how the Regular Activity Liquidity Obligation and Special Activity Liquidity Obligations would be computed under proposed Rule 4(A).

D. Securities Lending Arrangements Should be Permitted

In addition to being able to commit to the Credit Facility or satisfy a Regular Activity Supplemental Deposit in cash, clearing members should also be permitted to meet their liquidity obligations through securities lending or securities repurchase arrangements. In the earlier phases of NSCC's development of the SLD Proposal, NSCC communicated generally to clearing members that these mechanisms would be part of the design of the liquidity solution. However, securities lending and repurchase arrangements are not included in the SLD Proposal, and NSCC has not adequately explained why these mechanisms were dropped. NSCC should provide a much more detailed justification for the exclusion and that justification should be carefully

21 DTCC Letter at 3.

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reexamined as part of NSCC's planned review of "Other Qualifying Liquidity Resources" as described in the recent DTCC Letter.[22]

Through the additional mechanism of securities lending and repurchase arrangements, and upon notice from NSCC, NSCC could provide eligible securities to participating clearing members. Clearing members would then use those securities to raise cash from third parties through lending and/or repurchase arrangements and post the cash back to NSCC so that NSCC would be able to meet its liquidity needs. This process would take place subject to a predetermined collateral schedule and haircuts. It is possible that the collateral schedule that is already associated with the Credit Facility may also be appropriate for use here.

The commitment that a clearing member would make to NSCC through a securities lending arrangement is comparable to participation in the Credit Facility. In both cases, NSCC assumes the risk that a clearing member may not be able to fund its commitment. Moreover, securities lending arrangements would not expose NSCC to funding risk that it does not already assume in the Credit Facility context.

Most NSCC members are active participants in the secured financing markets in the ordinary course of business. In contrast, most NSCC members are not in the business of participating in credit facilities. While we appreciate that NSCC has proposed to remove some restrictions on participation in the NSCC Credit Facility, NSCC should work harder to structure member liquidity requirements in a way that allows non-bank affiliated clearing members to rely on funding mechanisms used in their existing business rather than being forced to turn to a funding mechanism that is typically used by banks.

We appreciate that supporting securities lending arrangements may require NSCC to consider adding certain human and operational resources that it does not already have in place. To the extent that is the case and NSCC does not want to meet those needs internally, we believe NSCC would be readily able to outsource these responsibilities to certain clearing members that already maintain the necessary resources.

We also understand that there may be concerns among NSCC and regulators that securities lending arrangements represent a form of funding that may not be as stable in stressed market conditions. We have extensive experience with these kinds of secured lending transactions and are confident that they are a resilient form of funding, even under highly stressed market conditions. For example, Citadel was readily able to fund NSCC eligible collateral during the recent stressed market conditions of 2008 and 2011. We would welcome the opportunity to provide NSCC and regulators with additional information to help inform decision making in this area.

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22 DTCC Letter at 14.

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E. SEC Guidance on Capital Treatment is Imperative

There is still no guidance from the Commission or its staff confirming the capital treatment under SEC Rule 15c3-1 that clearing members will need to apply to their SLD contributions—whether made in cash or through the Credit Facility. NSCC noted in its recent response letter that it believes that it has structured SLD contributions such that they are within the meaning of "clearing deposits" as that term is used in Rule 15c3-1. However, the SEC administers Rule 15c3-1, not NSCC.

Particularly in light of the significant potential size of required SLD contributions, we believe that the impact to clearing members concerning capital treatment is a gating issue that should be resolved prior to NSCC's efforts to move forward with any liquidity solution that asks clearing members to surrender control over substantial amounts of assets. To do otherwise imposes unknown down stream consequences that could and should be resolved at the outset. Opacity on this point continues to frustrate the ability of clearing members and NSCC to evaluate the real risks and costs of the SLD Proposal.

F. Fair Representation in the Governance of NSCC

Section 17A of the Exchange Act requires NSCC's rules to provide for fair representation.[23] We believe that the breadth and depth of the SEC comment file for the SLD Proposal underscores an immediate need for NSCC to revisit its governance structure and to consider changes to help ensure that the voices of a broader range of clearing members are heard and seriously considered during major risk management initiatives like the SLD Proposal. The goal should be to help ensure to the greatest extent practicable that issues and concerns of clearing members, like those now documented in the SLD Proposal comment file, are part of NSCC's deliberative governance process *before* a proposal like the SLD Proposal is filed. We and many other clearing members would welcome the opportunity to work with NSCC to help shape a structure that promotes these goals.

On a related note, we understand that a private sector group of senior managers from U.S. Banks that is sponsored by the Federal Reserve Bank of New York is working as the Payments Risk Committee to foster enhancements to the safety and resiliency of financial market infrastructures like NSCC. We are also aware that the Payments Risk Committee published a paper that concentrates on improving the quality of the dialogue between clearing houses like NSCC and their clearing member participants.[24] Well-intentioned efforts to generally improve information flow between clearing members and clearing houses, however, are not a substitute in the specific context of the SLD Proposal for hard wiring appropriate reporting and transparency requirements into NSCC's rules. In exchange for asking clearing members to contribute

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23 15 U.S.C. 78q-1(b)(3)(C).

24 Recommendations for Supporting Clearing Member Due Diligence of Central Counterparties (2013).

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significant amounts of their capital to support NSCC's liquidity needs, NSCC in turn must concurrently commit to providing clearing members with an appropriate level of transparency and a fair voice in the administration of those liquidity requirements.

G. Proposed Implementation Period Would be Insufficient

NSCC proposes that the first SLD contributions would be due in September 2013. Regardless of the final architecture of any supplemental liquidity enhancements for NSCC, firms need to be given a reasonable adjustment period during which they are provided data from a testing environment. This is a highly critical step to allow firms' to understand their exposures and have time to make important business adjustments that may include establishing new clearing relationships and putting in place additional systems. Accordingly, we believe that no implementation period for liquidity enhancements by NSCC should be shorter than one year. And during that time, NSCC should be providing the same level of data reporting to clearing members that would provided once the contributions become required.

IV. NSCC SHOULD WITHDRAW THE SLD PROPOSAL AND CONTINUE TO ENGAGE IN A MORE FUNDAMENTAL REWORKING OF LIQUIDITY ENHANCEMENTS WITH INDUSTRY COOPERATION

For the reasons provided above and in our prior comment letters, NSCC should withdraw the SLD Proposal and invite clearing members to help redesign a safe and responsible approach to making sure that NSCC has appropriate access to liquidity. It is important to bear in mind that NSCC is an industry utility that maintains a natural monopoly in the U.S. for post trade processing of securities transactions. With that unique and important position comes a heightened responsibility to exercise due regard for the effects that NSCC rule changes have on clearing members and the securities markets that NSCC serves. Most importantly, when designing significant and fundamental rule changes like the SLD Proposal, NSCC should attempt to build consensus to the greatest extent practicable among clearing members and participants. There is clearly no consensus supporting the SLD Proposal, and we are confident that NSCC can develop a better solution that drastically improves its liquidity framework and is strongly supported by members. Assembling a task force or working group to help build greater consensus around a responsible liquidity solution that reduces systemic risk would be a great first step. We stress our continued interest in participating in that type of process.

V. IF NSCC REFUSES TO WITHDRAW THE SLD PROPOSAL, THE COMMISSION SHOULD DISAPPROVE THE PROPOSAL AND ISSUE A NOTICE OF OBJECTION

Barring some emergency circumstance of which we are still unaware, we fail to understand why NSCC would not withdraw the existing SLD Proposal and invite further industry cooperation to develop an appropriate liquidity solution. If NSCC decides not to do so, however, we submit that the Commission would be required under Section 19(b) of the Exchange Act and SEC Rule 19b-4 thereunder to disapprove the SLD Proposal and to issue a notice of objection to NSCC with respect to the advance notice component. The SLD Proposal

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simply does not meet the minimum requirements of the Exchange Act and Clearing Supervision Act with respect to information transparency, adequacy, and clarity, as detailed in our June 13, 2013 comment letter.[25]

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If you have any questions, please do not hesitate to contact me at (312) 395-2100.

Sincerely yours,

John C. Nagel
Managing Director and General Counsel
Citadel Securities

cc: The Honorable Mary Jo White, Chairman
The Honorable Luis A. Aguilar, Commissioner
The Honorable Daniel M. Gallagher, Commissioner
The Honorable Kara M. Stein, Commissioner
The Honorable Michael Piwowar, Commissioner
Mr. John Ramsay, Acting Director, Division of Trading and Markets
Mr. Peter Curley, Associate Director, Division of Trading and Markets
Mr. Michael Macchiaroli, Associate Director, Division of Trading and Markets
Mr. Joseph Kamnik, Assistant Director, Division of Trading and Markets
Mr. Larry E. Thompson, Managing Director and DTCC General Counsel

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25 17 CFR 240.17Ad-22(d)(1), (2), (9) and (11).